Bethlehem Steel Corporation

ANNUAL REPORT

1968

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1968 ANNUAL REPORT

Bethlehem Steel Corporation, Bethlehem, Pa. 18016

Financial and Operating Summary

	1968	1967
Net income—Amount	$ 160,528,000	$ 130,448,000
—Per dollar of total revenues	5.5¢	5.0¢
—Per share	$3.55	$2.84
Dividends —Amount	$ 72,346,000	$ 68,972,000
—Per share	$1.60	$1.50
Common Stock at year end—Shares outstanding	43,987,000	45,982,000
—Stockholders	237,000	240,000
Total revenues	$2,896,255,000	$2,618,953,000
Depreciation	$ 211,641,000	$ 214,754,000
Taxes—Federal, state, local and foreign	$ 163,080,000	$ 157,904,000*
Capital expenditures—		
Property, plant and equipment	$ 458,080,000	$ 338,339,000
Investments in 50% or less owned enterprises	71,812,000	14,305,000
Capital expenditures authorized at year end—		
Property, plant and equipment	$ 537,000,000	$ 635,000,000
Investments in 50% or less owned enterprises	16,000,000	9,700,000
Long-term debt at year end	$ 368,294,000	$ 370,243,000
Raw steel produced (net tons)	20,372,000	20,525,000
Steel products shipped (net tons)	14,394,000	13,056,000
Orders on hand at year end	$ 804,000,000	$ 856,000,000
Employees—Monthly average number	131,000	131,000

* *Restated for purposes of comparison.*

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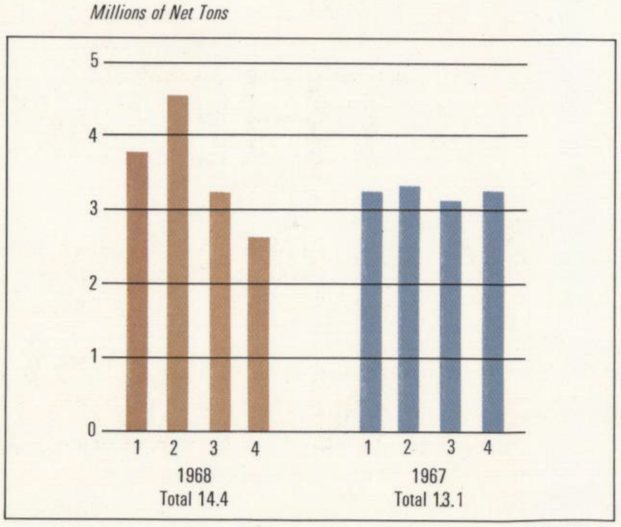
Directors and Principal Officers Inside back cover



Quarterly Shipments of Steel Products

Front Cover: The nation's largest blast furnace shown under construction at the Burns Harbor, Indiana, plant.

p13
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THE YEAR IN REVIEW

For Bethlehem Steel, 1968 was a better year than 1967, as the figures on the opposite page confirm.

However, the potential for an even greater profit performance was destroyed by the threat of a steel strike in August, which resulted in higher costs due to uneven operations and to loss of volume because of increased imports of steel products.

During the first seven months of 1968 our customers were building inventory to protect themselves against the possibility that the industry would not reach an agreement with the United Steelworkers of America prior to the August 1 deadline. When agreement was reached prior to that date, thus averting a strike, steel consumers began to use up their strike-hedge inventories, resulting in an abrupt decline in our rate of operations.

The new labor agreement provides for increases in employment costs which, although not out of line with the pattern in other industries, will amount to more than 6% in each of the next three years, or an aggregate of about 19% over the period of the agreement, which may be terminated August 1, 1971.

Opposition by the Government and competitive conditions have thus far made it impossible to increase the prices of our products sufficiently to offset the ever increasing costs of operation to which we are being subjected. As a result, Bethlehem's profit margins remain unsatisfactory.

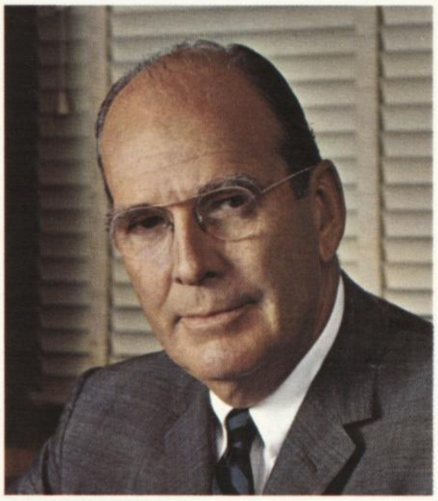
Due to the opposition of the United States Department of Justice, we terminated our arrangements for the proposed acquisition of Cerro Corporation. We continue to look for favorable opportunities to invest elsewhere than in the basic steel industry in order to increase diversification of our activities and enhance our profits.

We have made some progress in that direction by acquiring 3.5 million ordinary shares (3.4% of those outstanding) of The Rio Tinto-Zinc Corporation Limited, a British company with raw material interests throughout the world. We also acquired, jointly with Rio Tinto, a controlling interest in British Newfoundland Corporation Limited (Brinco), which is engaged in Canada in the exploration for and mining of minerals and the production and sale of hydroelectric power.

Bethlehem holds in treasury approximately 2,000,000 shares of its Common Stock, substantially all acquired in 1968, which are available for use in acquisitions and for other corporate purposes.

At a special meeting in February of 1968 the stockholders amended Bethlehem's Certificate of Incorporation to authorize the issuance of up to 20 million shares of Preferred Stock. They also are available for use in connection with acquisitions.

I am sorry to have to report to the stockholders that the volume of steel products imported into the United States in 1968 was by far the greatest in history. Approximately 18 million tons were imported, an increase of 57% over 1967. Beginning on page 6 is a report which emphasizes the extreme importance to Bethlehem of some control over the volume of steel imports. Unless that volume can effectively be held in check, which we think can only be done by Government controls, the steel industry in this country must inevitably decline. On the other hand, given some significant reduction in the level and growth rate of steel imports, there is good reason for confidence in Bethlehem's future earnings performance.



Edmund F. Martin

January 30, 1969 Chairman

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NEW FACILITIES

Bethlehem Steel's recent heavy capital expenditures have produced modern and efficient equipment at many new and existing operations and have thereby enabled Bethlehem to take increasing advantage of the important recent advances in steel technology.

Today, Bethlehem is able to produce larger tonnages of steel faster, more precisely and more economically than was thought possible even a few years ago. Bethlehem's capital spending program has strengthened its competitive position by enabling it to improve product quality, enter new markets, make new products and provide better customer service.

The more significant projects in Bethlehem's recent and current programs are listed below:

Burns Harbor–By 1970 Bethlehem will have nearly $1 billion invested in its Burns Harbor plant. Approximately half of that amount is going into the current Phase II of construction, which will make the plant fully integrated from raw materials to finished steel products.

The largest blast furnace in the Western Hemisphere, shown under construction on the front cover, is scheduled for completion in late 1969. It will have a 35 foot diameter hearth and is designed to produce over 5,000 tons of iron a day. It will be equipped with a computerized conveyor belt system for charging raw materials.

A basic oxygen furnace (BOF) shop, containing two 250 ton capacity vessels, will produce about two million tons of steel per year, based on anticipated iron supply. Pictured under construction on the back cover, the shop will be completed early in 1970.

A 50 by 96 inch slabbing mill, capable of rolling two 40 ton ingots in tandem, will be the most powerful slabbing mill of its kind when it goes into operation late in 1969.

An 82 oven coke battery, also to be completed in late 1969, will convert 3,800 tons of coal into coke daily.

The 3,780 foot dock wall of the plant's docking and shipping facilities is nearly completed. Adjacent raw materials handling and storage facilities will be completed by the end of 1969.

Auxiliary facilities under construction include a power house complex, storage and maintenance buildings, cooling and waste water treatment systems and a new plant office building.

In the existing tin mill complex, the tinning line is being converted to produce either tin plated or chrome coated steel for can making and a second pickling line will be installed.

The largest, most automated ore carrier on the Great Lakes is now being built to transport iron ore pellets from Minnesota to Burns Harbor. The 1,000 foot, 52,000 ton capacity vessel will be equipped with a 20,000 ton per hour self-unloading system—four times the unloading rate of any existing Great Lakes ore carrier.

Bethlehem–The first heat of steel was tapped from the new BOF shop in December, 1968. The shop's two 250 ton capacity furnaces, expected to produce over 2.3 million tons of steel a year, give Bethlehem Steel a total of seven BOF furnaces, accounting for over 42% of its steelmaking capacity.

In December, 1968, the most technologically advanced structural rolling mill in the world began operation at the Bethlehem plant. The combination mill can turn out both standard and wide flange structural shapes in 250 foot lengths at the rate of one a minute and it can also roll a full range of sheet piling. The structural steel shipping facilities have been expanded to meet the expected increased volume of shipments.

At the ingot mold foundry, by late 1969 new facilities will be capable of producing molds as large as 70 tons at a rate of 51,000 tons per month.

Sparrows Point–A new 1,020 foot deep water ore pier will enable Sparrows Point to take advantage of the economies of transporting ore in today's large ships. If proposals to deepen the Port of Baltimore's channel from the present 42 feet to 50 feet are carried out, vessels carrying up to 125,000 gross tons of ore can be unloaded at the new pier. The present pier can handle only ships carrying up to 58,000 tons. The new multimillion dollar pier and ore handling facilities will be operating in 1971.

The plant's new rod mill marked its first full year of operation, providing higher quality coils of steel rod weighing up to 3,000 pounds – the heaviest rolled anywhere. A new billet preparation facility was completed in 1968 for use with the rod mills.

Facilities are being installed to meet the market demand for double-reduced and chrome coated steel for can making. Scheduled for operation in 1969 are a two stand duo mill and an existing tin plating line which is being converted to produce chrome coated steel.

Additional trimming, slitting and skin-pass facilities went into operation early in 1968 to meet the growing demand for hot rolled sheets and to provide higher surface quality.

Lackawanna–Facilities for skin-passing and cutting-up hot sheet product went into operation in 1968 to improve quality and reduce production costs of heavy gage coils and cut lengths.

New basic oxygen furnace shop at Bethlehem, Pennsylvania, will produce 2.3 million tons of steel a year.

A 76 oven coke battery, to begin service by late 1969, will produce substantially more coke than the two batteries it replaces.

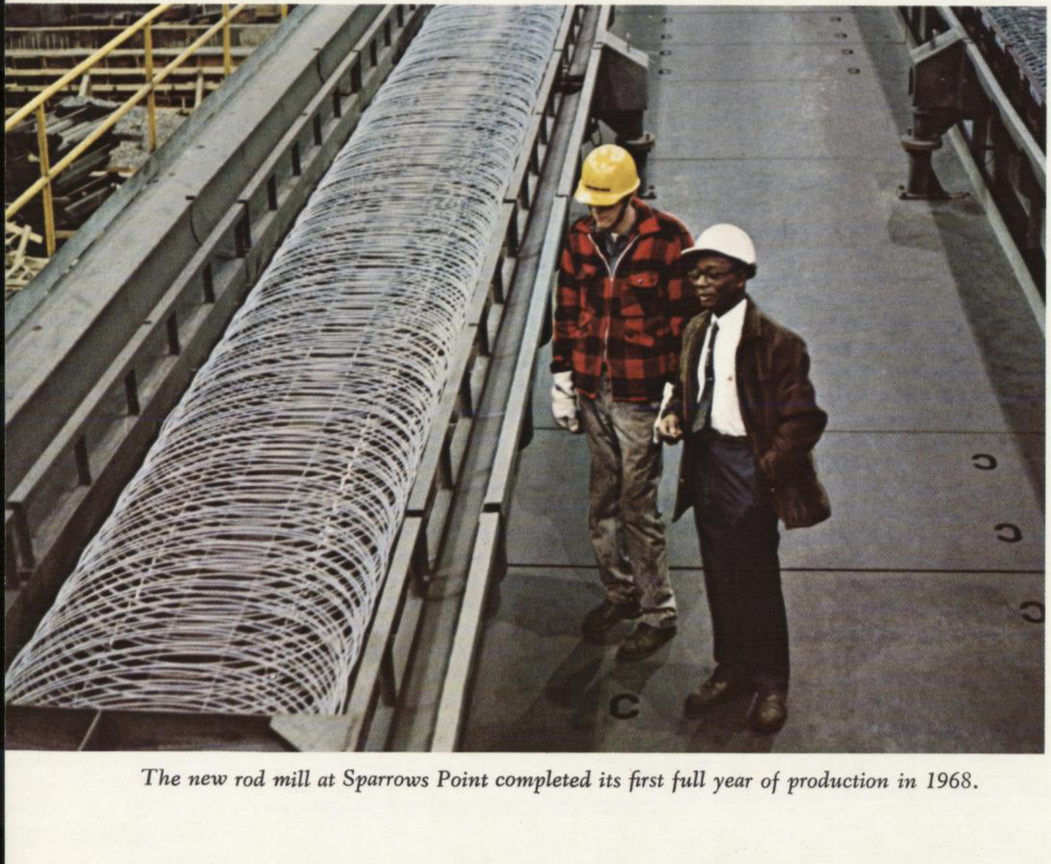
Structural steel handling and shipping facilities are being enlarged to increase the output of the 48 inch rolling mill, which produces structural sections and H-piling.

Water pollution abatement facilities are now under construction.

Johnstown–A vertical continuous casting facility will be completed early in 1970. The four strand casting unit, with a capacity of 30,000 tons of billets per month, will increase the plant's total billet capacity substantially. Improvements to the 13 inch bar mill have been authorized and are under way.

New axle forging machines, machine tools and a wheel heating furnace are now in operation to meet the increased demand for railroad wheels and axles.

Hot scarfing facilities were completed in 1968 to improve the surface quality of steel at the 46 inch blooming and slabbing mill.



The new rod mill at Sparrows Point completed its first full year of production in 1968.

Steelton–Two of three new 150 ton capacity electric furnaces will be in operation by the end of 1969, with the third going into operation in 1970. They will provide the plant with an annual steelmaking capacity of over one million tons. The furnaces, which will replace old open hearths, will improve costs and reduce air pollution.

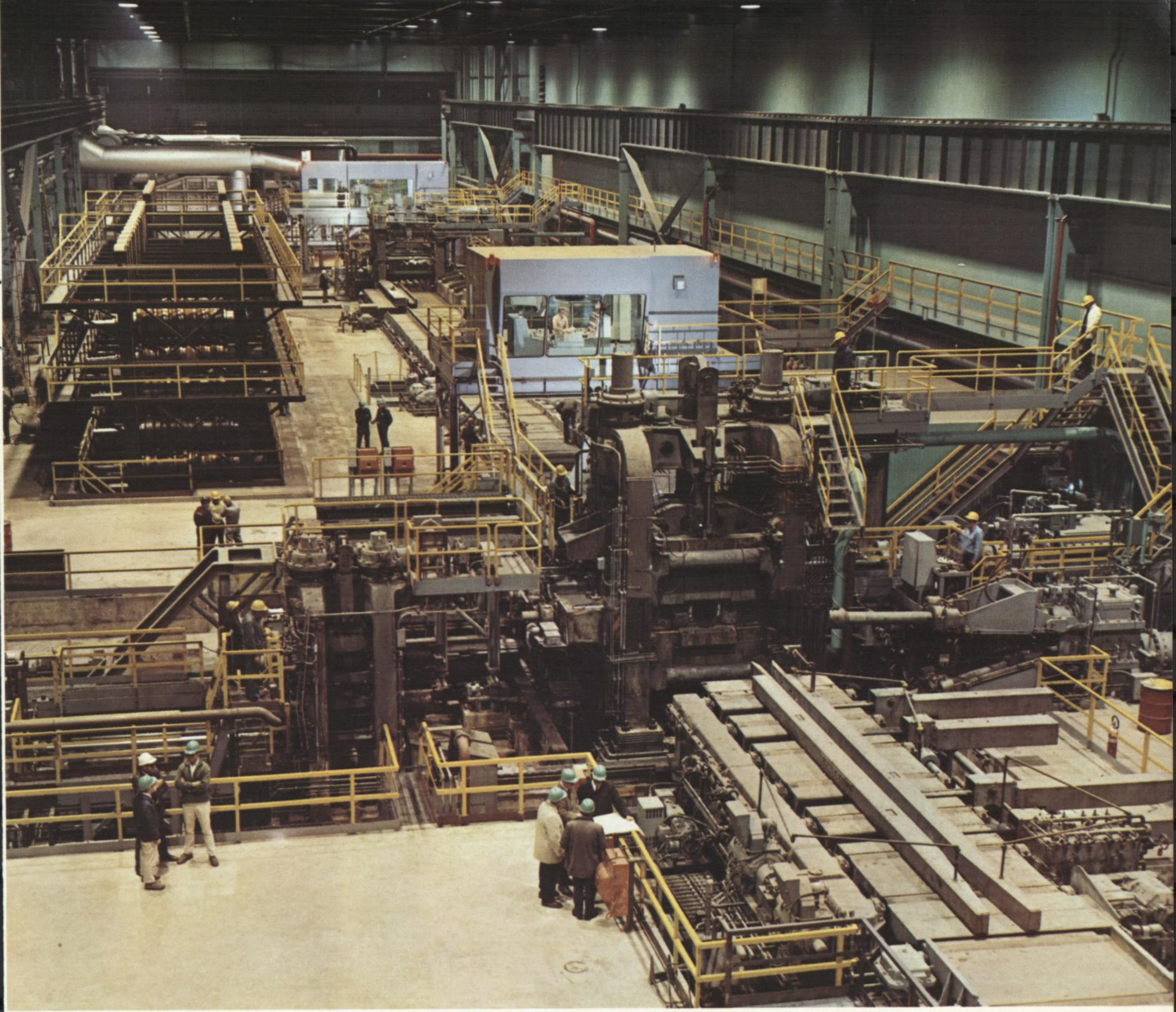
Williamsport–A new 72 wire planetary stranding machine went into operation in 1968 to manufacture steel strand up to 5½ inches in diameter for use in bridges, towers and cable-roof systems.

Los Angeles–A multimillion dollar improvement program, largely completed in 1968, included rebuilding the soaking pits to increase the capacity of the blooming and billet mills and improving the bar mill to increase the quality and the range of sizes that can be produced.

Seattle–At the industrial fastener plant, new production equipment was installed in 1968 to broaden the range of products, and construction of an automated warehouse to provide increased inventory and faster customer service was completed.

Reinforcing Bar Shops–Bethlehem's network of reinforcing bar fabricating shops was expanded to serve additional major construction areas, with new shops in Houston, Texas; Cleveland, Ohio; and Seattle, Washington.

Shipbuilding–At the Sparrows Point shipyard, multimillion dollar new facilities authorized in 1968 will enable the yard to do a large amount of ship fabrication and assembly on a production line basis. Included is a panel shop, the first of its kind in the United States, which will be able to handle structural ship subassemblies of up to 180 tons. It is the keystone of a system in which precoated plates, shapes and webs will be transported



Standard and wide-flange structural shapes can be rolled on the new mill at Bethlehem, Pennsylvania, at the rate of one a minute.

by conveyors and assembled into large units.

The largest commercial floating drydock in the United States will be built and installed at the San Francisco shipyard. It will be 900 feet long and will be able to handle ships up to 150,000 deadweight tons. Ship repair capabilities at the San Francisco and San Pedro yards were increased in 1968 with the completion of new piers.

Mines–Bethlehem acquired Drummond Dolomite Incorporated, on Drummond Island in Lake Huron, to supply dolomite for the Burns Harbor and Lackawanna plants.

New facilities are under construction to increase ore production at Bethlehem's Romeral Mine in Chile.

The headquarters of Bethlehem Mines Corporation's coal mining activities have recently been transferred from Johnstown to corporate headquarters in Bethlehem.

Sales Offices–To strengthen Bethlehem's sales efforts in the Midwest market served by the Burns Harbor plant, additional sales offices were opened in Louisville, Kentucky, and Kansas City, Missouri.

New Headquarters Building–A new corporate headquarters building will be erected in Bethlehem, Pennsylvania. The new building, together with the present headquarters, which will be largely occupied by the Sales Department, will permit the consolidation of corporate offices now occupying all or part of 14 widely scattered buildings in the Bethlehem area.

HOW STEEL IMPORTS HAVE HURT

Bethlehem made capital expenditures of $2.7 billion during the ten year period 1959-1968. The bulk of this investment has been in steel plants and supporting activities, more than one-fourth of it in the new plant at Burns Harbor, Indiana. About 70% of the total amount was spent during the latter half of the decade.

The ten year period was one of extraordinary change in conditions affecting steel production and sales in the United States. Apparent consumption of steel mill products grew at an average annual rate of about 2%, but the growth was unevenly distributed among products and geographical regions. The greatest increase among the major products occurred in flat-rolled material such as plates, sheets and tin mill products. The Midwestern market showed the largest gain in steel consumption. The decade saw an increasing trend toward lighter weight and higher strength steels, so that measurement of steel consumption in terms of tonnage tends to understate the real growth of steel usage.

Significant advances in steel technology have taken place in the decade. Productivity in basic steelmaking has accelerated with rapid adoption of the basic oxygen furnace and important changes in blast furnace design and operating practices. Improvements in rolling mills and finishing facilities have increased efficiency in steel production and have also made possible substantial economies for steel users because of improvements in products. Changing technology has put increasing emphasis on research and development.

Labor and purchased materials rose in price during the 1959-1968 period, as did supplies and services. Furthermore, cost increases accelerated in the latter part of the period, reflecting the inflationary tendencies which are evident in the economy as a whole.

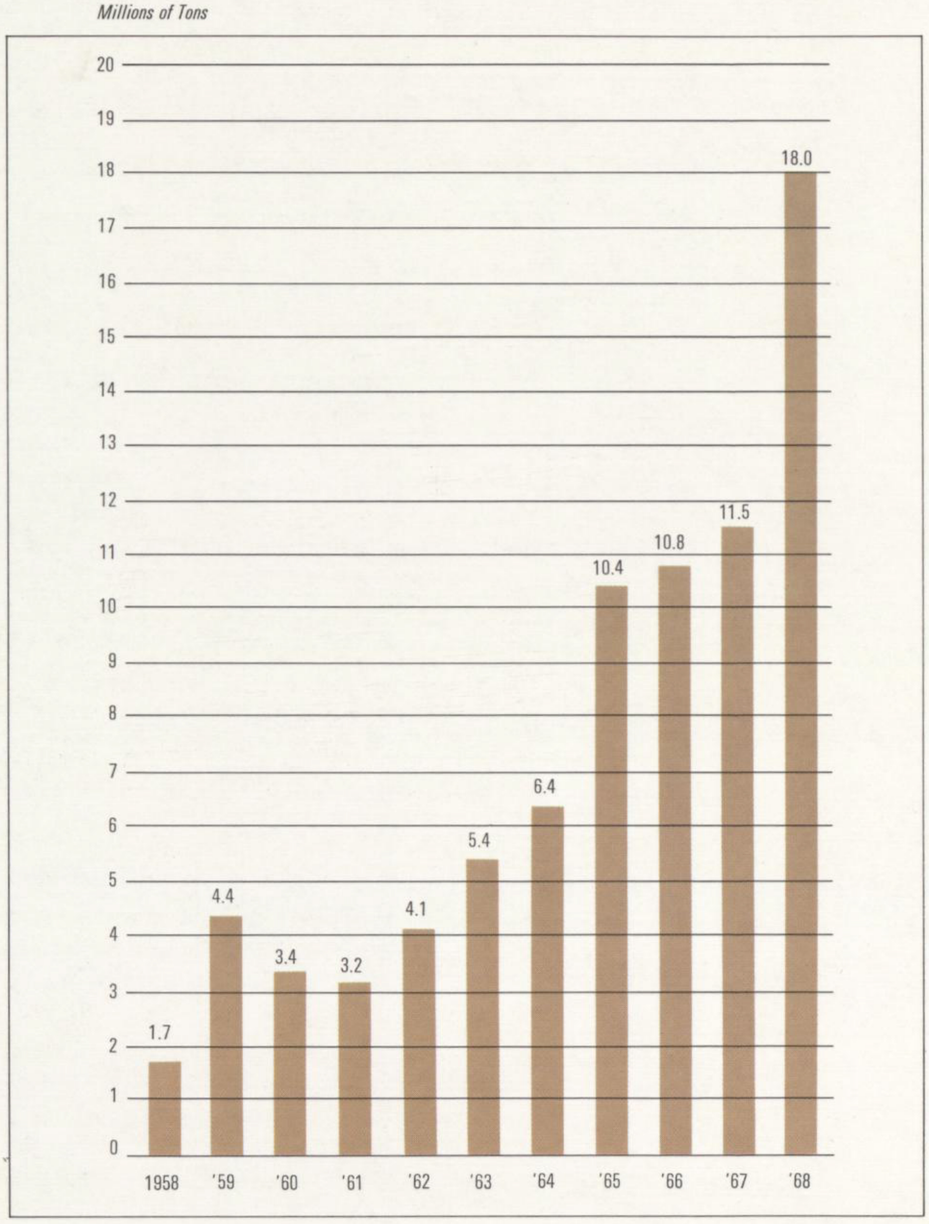
Bethlehem's investment policy has been responsive to these changes in the economic climate. Its expenditures at Burns Harbor reflect the shifts in markets toward the mid-continent area and toward flat-rolled products. It is estimated that 65% of all the steel consumed in this country is used in the area served by the Burns Harbor plant. This market is expected to grow faster than the domestic steel market as a whole, a development which Bethlehem had anticipated earlier and which had prompted the attempt to merge with The Youngstown Sheet and Tube Company which failed in 1957 with an adverse decision by a Federal court.

BETHLEHEM

The decision to build the Burns Harbor plant, which was made in 1962, has enabled Bethlehem to enlarge its share of domestic industry shipments. Its share had been declining because of market shifts and the heavy influx of foreign steel into Bethlehem's coastal market areas. The Burns Harbor investment is essentially a long-range one, and it should within a few years add substantially to Bethlehem's profits.

Bethlehem's response to technological change has been to put itself in the forefront of steel research and development. Substantial investments were made in the Homer Research Laboratories during the first half of the decade. The fruits of Bethlehem's research have been applied to facilities and products through major investments at Burns Harbor and other plants.

Improvements to operating facilities provide a principal means of countering the rising hourly employment costs and prices of purchased materials, supplies and services. Bethlehem has accordingly laid great stress on investments designed to improve operating efficiency throughout its operations. The cost reductions resulting from its investments have alleviated the impact of increased employment and other



Annual Imports of Steel Mill Products

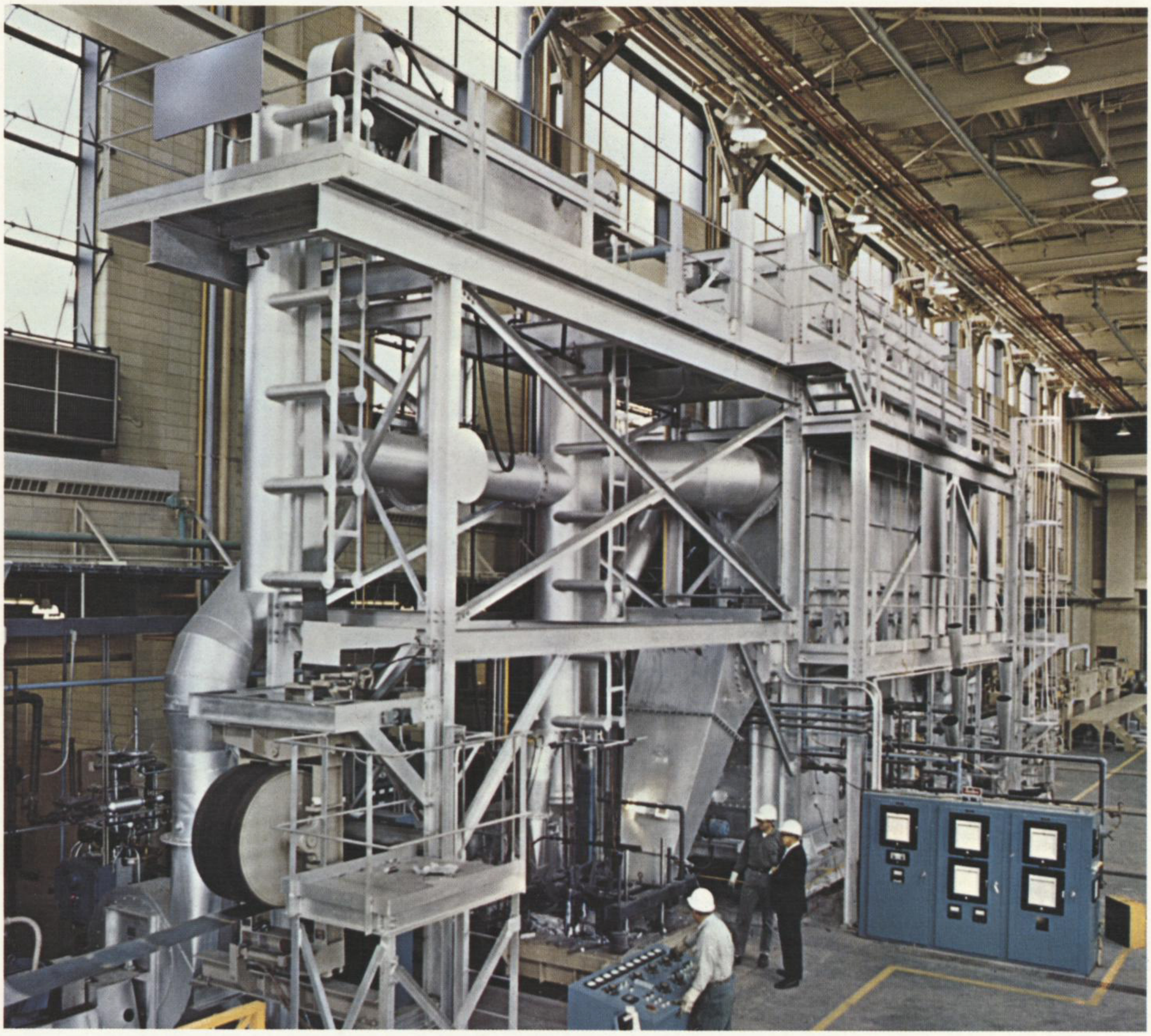
Many of Bethlehem's new facilities are computerized. This is the basic oxygen furnace control room at the Sparrows Point, Maryland, plant.

costs, so that operating profit per unit of output has been maintained at a remarkably constant level during the decade.

However, net income has fallen, because of the marked increase in fixed costs inherent in the heavy expenditures. Depreciation charges and property taxes have risen with increased investment. Interest charges have gone up sharply in the last few years because of increases both in interest rates and in the amount of outstanding debt. Growing emphasis on research and development has added considerably to the number of employees whose work continues irrespective of current business conditions.

The best way to offset the impact of rising fixed costs on nearly constant operating profits is to increase sales volume. The use of steel in the United States has grown, and can be expected to continue to grow, at an average rate of about two-thirds the increase in gross national product. Experience in recent years shows that Bethlehem can maintain or improve its share of the markets for steel produced in this country. But, the rapid increase of steel imports has held down Bethlehem's growth and depressed its earnings.

Although Bethlehem has been, and continues, in an excellent position to take advantage of the continuing growth in domestic steel consumption, that growth has been siphoned off by foreign producers. In recent years, there has been a spectacular growth in steel capacity abroad, especially in Japan. Prior to 1959 foreign producers were hard pressed to supply the needs of their own markets, which led to considerable over expansion of their productive facilities, resulting in substantial surpluses of steel products available for export. Growing tonnages have been directed at the huge market in the United States to such an extent that in 1968 imports into this country amounted to approximately 18 million tons – 16.7% of all the steel delivered to customers in this country and much more than Bethlehem's total shipments. In the last decade, imports have absorbed considerably more than half of the growth in domestic steel consumption. During the last four years, they accounted for roughly 70% of that growth. Bethlehem and other U. S. producers can justify continued



Vital to the research program at the Homer Research Laboratories is this full size pilot line for studying hot dip coatings and other continuous strip processes.

investment in steel manufacturing properties *only* if they have the opportunity to participate fairly in market growth.

Foreign producers have been aided and encouraged by their governments, as a matter of national policy, in their accelerating penetration of the United States market.

Only a government can counteract the effects of the policies of other governments. We appreciate the efforts of our Government in securing decisions by the steel producers of the European Economic Community and Japan to adopt limitations on their steel exports to the United States during the 1969-1971 period. However, the limitations are both temporary and voluntary, and they do not apply to other important industrialized countries. In our judgment, they do not remove the threat that large and rapidly growing imports of steel pose for our national security, our balance of payments and employment in our country.

Accordingly, Bethlehem and other steel companies, joined by the United Steelworkers of America, have urged our Government to continue to consider a definitive legislative solution of this critical problem.

Consolidated Statement of Income and Income Invested in the Business

	1968	**1967**
	(dollars in thousands)	
Revenues:		
Net sales	$2,862,734	$2,594,088
Interest, dividends and other income	33,521	24,865
	$2,896,255	$2,618,953
Costs and Expenses:		
Cost of sales	$2,180,394	$1,946,725*
Depreciation (Note B)	211,641	214,754
Pensions (Note C)	36,143	34,190
Taxes, other than taxes on income. incl. social sec	94,080	89,704
Selling, administrative and general expense	125,527	119,683*
Interest and other debt charges	18,942	15,249
Provision for taxes on income (Note D):		
Current	20,800	164,600*
Deferred	48,200	(96,400)*
	$2,735,727	$2,488,505
Net Income	$ 160,528	$ 130,448
Net income per share**	$3.55	$2.84
Income Invested in the Business, January 1	1,281,230	1,219,754
	$1,441,758	$1,350,202
Dividends	72,346	68,972
Dividends per share	$1.60	$1.50
Income Invested in the Business, December 31	$1,369,412	$1,281,230

* *Restated for purposes of comparison.*

** *Based on average number of shares outstanding.*

Consolidated Balance Sheet

	December 31, **1968**	December 31, **1967**
	(dollars in thousands)	
Assets		
Current Assets:		
Cash	$ 47,314	$ 66,433
U. S. Government and other marketable securities, at cost (approximately market)	235,945	511,625
Receivables—less allowance for doubtful receivables	269,963	254,962
Inventories (page 14)	437,696	515,336
Total Current Assets	$ 990,918	$1,348,356
Investments and Long-term Receivables:		
Investments in 50% or less owned enterprises, at cost	201,260	142,212
Miscellaneous investments, at cost, and receivables (Note E)	99,782	87,470*
Property, Plant and Equipment, net (page 14)	1,753,314	1,504,219
Prepaid Income Taxes (Note D)	—	34,700*
Deferred Charges	15,080	1,488*
Total	$3,060,354	$3,118,445*
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable (Note F)	$ 383,926	$ 317,724*
Commercial paper payable	32,000	—
Accrued taxes (Note D)	100,985	214,767*
Accrued employment costs	139,965	107,318
Other	66,815	51,584*
Total Current Liabilities	$ 723,691	$ 691,393*
Accrued Liabilities Payable After One Year (Note F)	64,840	199,800*
Deferred Income Taxes (Note D)	19,700	—
Long-term Debt (page 14)	368,294	370,243
Stockholders' Equity (Note G):		
Common Stock—$8 par value—Authorized 80,000,000 shares; issued 45,987,118 shares	$ 575,992	$ 575,992
Income invested in the business	1,369,412	1,281,230
	$1,945,404	$1,857,222
Less—2,000,066 and 5,351 shares held in treasury, at cost	61,575	213
Total Stockholders' Equity	$1,883,829	$1,857,009
Total	$3,060,354	$3,118,445*

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* *Restated for purposes of comparison.*

Notes to Consolidated Financial Statements

A. Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries and, effective for the year ended December 31, 1968, its majority owned subsidiaries. Such change in 1968 had no significant effect upon the comparability of the financial statements.

B. Depreciation

Since 1954 substantially all the annual additions to property, plant and equipment were depreciated under the sum of the years-digits method. However, substantially all additions since January 1, 1968, are being depreciated under the straight line method for financial accounting purposes, while the sum of the years-digits method has been retained for Federal income tax purposes. Such methods are applied (for an individual company) to depreciate the aggregate cost of a group of facilities. Net income for 1968 was approximately $5,000,000 more under the new method than it would have been under the old.

C. Pensions

The Bethlehem Pension Plan is noncontributory and covers approximately 23,000 participants now receiving pensions and approximately 135,000 participants who may become entitled to pensions in the future. Normal retirement age is 65 and benefits are related to compensation and years of continuous service.

The amounts charged against income for pensions in 1968 and 1967 were mainly in respect of pensions under the Pension Plan, which provides retirement benefits for all employees except certain domestic and foreign employees covered by other plans. The major portion of those amounts was paid into the Pension Trust Fund under the Pension Plan. No charge against income for 1968 has been made for increased benefits which will become effective under the Pension Plan on August 1, 1969, including those provided for in the union settlement of August 1, 1968.

The assets, at cost, of the Pension Trust Fund at December 31, 1968, amounted to $509,537,000 (page 15) and are sufficient to fully fund pensions already granted and to provide substantial additional amounts for pensions which may be subsequently granted. In the opinion of the Corporation and its independent actuary, such additional amounts constituted, in the light of the circumstances prevailing at December 31, 1968, a reasonable provision for the estimated actuarial liability at that date in respect of nonretired employees. The aggregate market value of such assets is substantially more than the cost thereof. The Pension Trust Fund is not the property of the Corporation or its subsidiaries and therefore is not included in the consolidated financial statements.

D. Provision for Taxes on Income

Net income for 1968 and 1967 reflects reductions in the provision for current Federal income taxes equal to the estimated investment tax credits for such years of approximately $19,900,000 and $10,100,000, respectively.

The tax effects of material timing differences in the recognition of income and expense for financial accounting purposes and for the calculation of income taxes payable are included in the 1968 financial statements in accordance with Opinion 11 of the Accounting Principles Board of the American Institute of Certified Public Accountants, which became effective for 1968. Certain balance sheet items at December 31, 1967, and certain items, including the provision for taxes on income, in the statement of income for the year ended December 31, 1967, have been restated for purposes of comparison. The restatements had no effect on net income for 1967.

E. Investments

In December, 1967, and January, 1968, the Corporation purchased from a wholly owned subsidiary of Cerro Corporation mineral production payments in the primary sums of $42,000,000 and $62,000,000, respectively, under which the Corporation is entitled, until the primary sums and certain additional amounts have been paid, to the proceeds from the sales of raw materials mined after January 31, 1968, from properties in Peru of such subsidiary of Cerro Corporation. The unpaid balance of the primary sums at December 31, 1968, was $60,325,000.

F. Raw Materials Transactions

In December, 1967, and December, 1968, several of the Corporation's wholly owned subsidiaries sold mineral production payments aggregating $296,000,000 and $18,800,000, respectively, in primary sums. The purchasers are entitled, until the primary sums and certain additional amounts have been paid, to the proceeds from the sales of raw materials mined after December 31 of the year of sale from properties of such subsidiaries. The proceeds of such sales have been reflected in accounts payable and in accrued liabilities payable after one year in the ratio of the amounts that are expected to be repaid out of production in the following twelve months and thereafter. The transactions are taken into income as the minerals are produced. The unpaid balance of the primary sums at December 31, 1968, was $200,054,000.

Based on its proportionate stock interest in certain 50% or less owned raw material enterprises, the Corporation is entitled to receive its share of the raw materials produced by such enterprises and is committed to pay its share of their costs, including amortization of their long-term indebtedness. Such amortization averages approximately $8,200,000 annually through 1983. In addition, the Corporation has guaranteed indebtedness of certain other 50% or less owned raw material enterprises with maturities which average approximately $6,000,000 annually through 1973.

G. Capital Stock

Effective February 14, 1968, the Certificate of Incorporation of the Corporation was amended so as to authorize the issuance of up to 20,000,000 shares of Preferred Stock, of the par value of $1 per share, issuable in series. The Board of Directors is authorized from time to time to create such series and to fix certain of the powers, preferences and rights of the holders thereof. None of those shares has been issued.

At December 31, 1968, 613,900 shares of Common Stock were reserved for the exercise of options granted under the Stock Option Plan prior to 1963. The option prices range from $41 to $51 per share and the options expire on various dates in the years 1969 through 1972. During 1968, no options were exercised and options covering 67,100 shares terminated. On January 5, 1969, options covering 119,400 shares at $51 expired. No additional options may be granted under the Plan.

Consolidated Statement of Source and Application of Funds

	1968	1967
	(dollars in thousands)	
Source:		
From Operations—		
Net income	$ 160,528	$ 130,448
Depreciation (Note B)	211,641	214,754
Proceeds from sale of 5.40% Debentures	—	150,000
Decrease in working capital	389,736	(181,566)*
Increase in deferred income taxes (Note D)	54,400	(44,900)*
Other, net	3,316	4,620
Total	$ 819,621	$ 273,356*
Application:		
Capital expenditures, and net investments in 50% or less owned enterprises	$ 517,087	$ 339,014
Decrease in accrued liabilities payable after one year (Notes D and F)	134,960	(188,600)*
Dividends	72,346	68,972
Purchase of Common Stock and long-term debt	63,311	10,756
Investment in future mineral production, net of repayments in 1968 (Note E)	18,325	42,000
Increase in deferred charges	13,592	1,214*
Total	$ 819,621	$ 273,356*

**Restated for purposes of comparison.*

Opinion of Independent Accountants

To the Board of Directors and Stockholders
of Bethlehem Steel Corporation:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of income and income invested in the business and the consolidated statement of source and application of funds present fairly the financial position of Bethlehem Steel Corporation and its subsidiaries consolidated at December 31, 1968, the results of their operations for the year and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, which we approve, in the method of computing depreciation referred to in Note B of the notes to consolidated financial statements. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

New York, N. Y.
January 30, 1969

Price Waterhouse & Co.

Schedules to Consolidated Financial Statements

Inventories

	December 31, **1968**	*December 31,* **1967**
	(dollars in thousands)	
Ore, fluxes, fuel and coal chemicals	$ 109,196	$ 111,077
Pig iron, alloys, scrap and manufacturing supplies	99,869	108,103
Finished and semi-finished products	180,663	230,587
Contract work in progress	47,968	65,569
	$ 437,696	$ 515,336

Note: Inventories (other than contract work in progress, which is valued at cost less billings, adjusted for estimated partial profits or losses) are valued at the lower of cost or market using the last-in, first-out method, adopted in 1947, in costing the principal portion thereof.

Property, Plant and Equipment

	1968	1967
Steel producing and fabricating properties	$3,622,122	$3,230,949
Raw material properties, net of depletion	410,326	386,832
Transportation properties	178,057	164,762
Shipbuilding and ship repair properties	102,658	98,586
Total Property, Plant and Equipment, at cost	$4,313,163	$3,881,129
Less: Accumulated depreciation	2,559,849	2,376,910
	$1,753,314	$1,504,219

Long-term Debt

	1968	1967
Consolidated Mortgage Bonds		
Twenty-Five Year Sinking Fund 2¾% Bonds, Series I. Due July 15, 1970	$ 45,714	$ 45,714
(No further Sinking Fund requirements)		
Thirty-Year Sinking Fund 2¾% Bonds, Series J. Due November 15, 1976	21,561	22,279
(Sinking Fund requirements: $1,000,000, annually, 1969 to 1975, inclusive)		
Thirty-Year Sinking Fund 3% Bonds, Series K. Due January 1, 1979	29,594	30,770
(Sinking Fund requirements: $1,000,000, annually, 1970 to 1978, inclusive)		
3¼% Twenty-five-Year Debentures. Due May 1, 1980	3,269	3,269
5.40% Debentures. Due January 15, 1992	150,000	150,000
(Sinking Fund requirements: $6,000,000, annually, 1972 to 1991, inclusive)		
4½% Subordinated Debentures. Due January 1, 1990	118,156	118,211
(Sinking Fund requirements: $4,076,000, annually, 1970 to 1989, inclusive. As a Purchase Fund, $1,359,000 must be available for a period of 30 days from July 1, 1969, for purchase of Debentures at prices not exceeding principal amount, except to the extent the Corporation elects to apply Debentures acquired by it.)		
	$ 368,294	$ 370,243

Note: The amounts at December 31, 1968, are after deducting the following securities owned and available for applicable Sinking Fund or Purchase Fund requirements: $3,786,000 Series I Bonds, $2,439,000 Series J Bonds, $1,406,000 Series K Bonds and $6,835,000 Subordinated Debentures.

Pension Trust Fund

Statement of Assets

	December 31, 1968	December 31, 1967
	(dollars in thousands)	
Cash and accrued interest receivable	$ 2,480	$ 3,040
Contributions receivable from employing companies	8,291	—
Investments, at cost:		
Short-term obligations	37,018	20,263
U.S. Government bonds	—	15,920
Other bonds, notes and obligations—		
Domestic corporate	93,221	103,688
Real estate mortgages	14,744	15,768
Foreign	13,225	16,396
Preferred stocks	11,001	7,689
Common stocks—		
Industrial	217,627	195,109
Public utility	65,494	57,172
Financial	46,436	36,863
Total (Note)	$509,537	$471,908

Statement of Changes in Fund

	1968	1967
	(dollars in thousands)	
Balance in Fund, January 1	$471,908	$443,446
Additions: Contributions from employing companies	36,069	33,852
Income from investments	23,132	22,561
Net gain on disposition of investments	18,453	9,493
	$549,562	$509,352
Deduction: Pension payments	40,025	37,444
Balance in Fund, December 31	$509,537	$471,908
Pensioners at year end	23,053	22,445

Note: The Pension Trust Fund is not the property of the Corporation or its subsidiaries and therefore is not included in the consolidated financial statements. The aggregate market value of the total assets of the Fund is substantially more than the cost thereof.

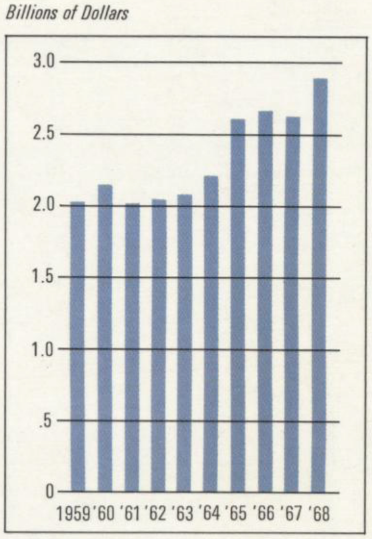
Opinion of Independent Accountants

To the Trustees of the Pension Fund under the Pension Trust
of Bethlehem Steel Corporation and Subsidiary Companies:

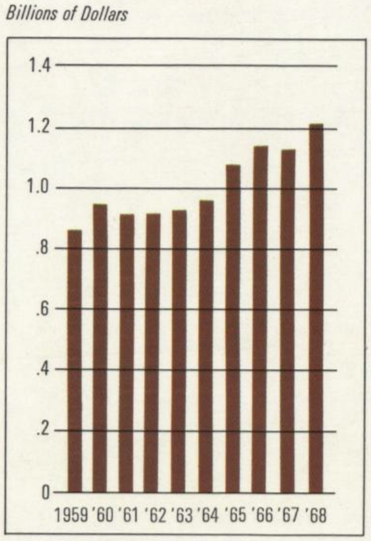
In our opinion, the accompanying statement of assets and statement of changes in the Fund present fairly the assets of the Pension Fund under the Pension Trust of Bethlehem Steel Corporation and Subsidiary Companies at December 31, 1968 and the changes in the Fund during the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including confirmation by the custodian of investments owned at December 31, 1968.

New York, N. Y.
January 27, 1969

Price Waterhouse & Co.



Revenues



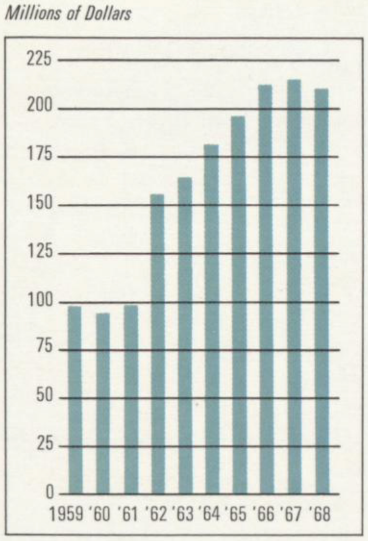
Employment Costs

Ten Year Financial and Operating Summary

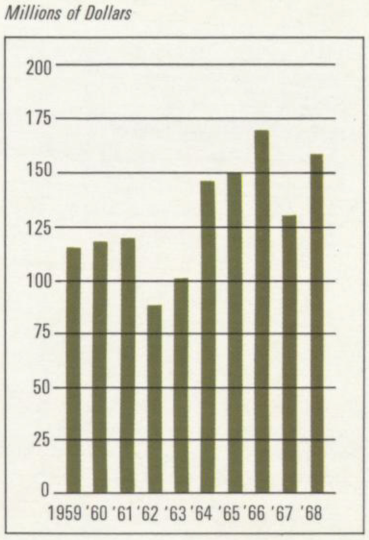
(Dollars in millions, except net income per share)

	1968	**1967**	**1966**
Revenues:			
Net sales	$2,862.7	2,594.1	2,669.4
Interest, dividends and other income	33.5	24.8	22.3
	$2,896.2	2,618.9	2,691.7
Costs and expenses:			
Employment costs	$1,220.6	1,138.4	1,147.6
Materials and services	1,171.8	1,011.2*	1,023.6
Depreciation	211.6	214.8	212.0
Taxes, other than social security taxes	112.8	108.9*	129.2
Interest and other debt charges	18.9	15.2	8.4
	$2,735.7	2,488.5	2,520.8
Net income—Amount	$ 160.5	130.4	170.9
—Per dollar of total revenues	5.5¢	5.0	6.4
—Per share of Common Stock	$ 3.55	2.84	3.72
Dividends—Preferred Stock (refunded in 1964)	$ —	—	—
—Common Stock	72.3	69.0	82.8
Capital expenditures—Property, plant and equipment	$ 458.1	338.3	265.1
—Investments in 50% or less owned enterprises	71.8	14.3	13.1
Long-term debt at year end	$ 368.3	370.2	231.0
Common Stock at year end—Shares outstanding	43,987,000	45,982,000	45,982,000
—Stockholders	237,000	240,000	248,000
Raw steel produced (net tons)	20,372,000	20,525,000	21,275,000
Steel products shipped (net tons)	14,394,000	13,056,000	13,849,000
Employees—Monthly average number	131,000	131,000	133,000

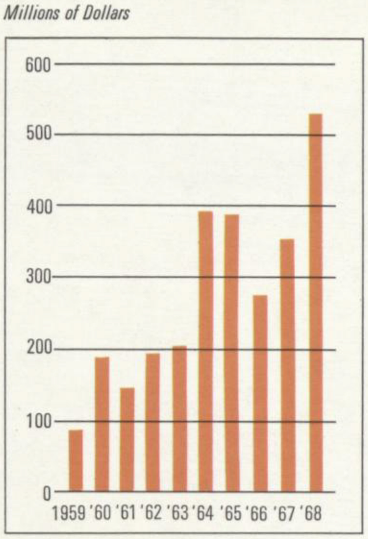
* *Restated for purposes of comparison.*



Depreciation



Net Income



Capital Expenditures

1965	1964	1963	1962	1961	1960	1959
2,579.4	2,240.7	2,095.8	2,072.1	2,033.9	2,178.1	2,055.7
21.8	24.1	20.4	24.7	23.2	30.9	23.4
2,601.2	2,264.8	2,116.2	2,096.8	2,057.1	2,209.0	2,079.1
1,080.8	973.1	924.3	914.1	913.0	945.7	860.0
1,016.8	831.5	785.7	812.6	750.8	856.5	830.1
196.1	181.2	163.7	155.5	98.1	94.2	97.6
148.4	126.9	136.5	121.9	168.8	187.8	170.0
9.1	4.2	3.5	4.0	4.0	3.6	4.2
2,451.2	2,116.9	2,013.7	2,008.1	1,934.7	2,087.8	1,961.9
150.0	147.9	102.5	88.7	122.4	121.2	117.2
5.8	6.5	4.8	4.2	5.9	5.5	5.6
3.26	3.11	2.11	1.80	2.54	2.52	2.44
—	6.5	6.5	6.5	6.5	6.5	6.5
68.8	68.3	68.3	99.0	109.2	109.2	108.8
377.6	385.7	177.3	144.5	114.3	169.9	86.7
5.6	5.8	31.1	48.3	30.7	12.1	2.0
240.3	263.4	128.9	135.4	138.7	140.4	149.5
45,987,000	45,511,000	45,511,000	45,511,000	45,511,000	45,488,000	45,455,000
245,000	249,000	254,000	258,000	235,000	209,000	187,000
21,032,000	19,436,000	16,109,000	14,677,000	14,944,000	15,941,000	14,257,000
14,319,000	12,762,000	10,987,000	10,391,000	10,045,000	11,419,000	10,268,000
130,000	121,000	120,000	122,000	128,000	141,000	129,000

PRODUCTS

Sheet and Strip Products: Hot-rolled, cold-rolled and galvanized sheets • Hot-rolled bands • Hot-rolled strip • Galvannealed sheets • Electro-galvanized sheets • Enameling sheets—Bethnamel • Pre-painted sheets • Chromized sheets • Culvert sheets

Structural Shape Products: Wide-flange structural sections • Standard beams, angles and channels

Plate Products: Sheared, universal and strip mill plates • Quenched and tempered plates • Flanged and dished heads

Tin Mill Products: Electrolytic tinplate • Hot-dip tinplate • Blackplate • Double-reduced tinplate and blackplate • Tin-free steel • Electrolytic tin mill coated sheets

Alloy and Carbon Bars and Semi-Finished Products: Hot-rolled bars—standard and special sections • Blooms, billets and slabs

Rod and Wire Products: Wire rods •

Bethlehem sheets are used by the automotive industry in large volume.

Manufacturers' wire—bright, galvanized, Bethanized and aluminized • Nails and staples • Bale ties and automatic baling wire • Barbed wire

Reinforcing Bars and Construction Specialty Products: Concrete reinforcing bars • Fabricated reinforcing bars • Welded wire fabric • Slabform, Bridgform and Reinform • Highway guard rails—beam and cable • Cold-formed shapes • Steel joists

Piling Products: Sheet piling • H-piles • Piling pipe

Tubular Products: Continuous butt-weld pipe • Electric-resistance weld pipe • Oil and gas transmission line pipe

Railroad Products: Freight cars, industrial cars and car parts • Rails, tie plates and joint bars • Wheels and axles • Frog and switch material • Prefabricated special track work

Tool Steel Products: Tool steels • Specialty steels

Industrial Fastener Products: Bolts, nuts, rivets, spikes and other industrial fasteners • Mine roof bolting and supports • Sucker rods

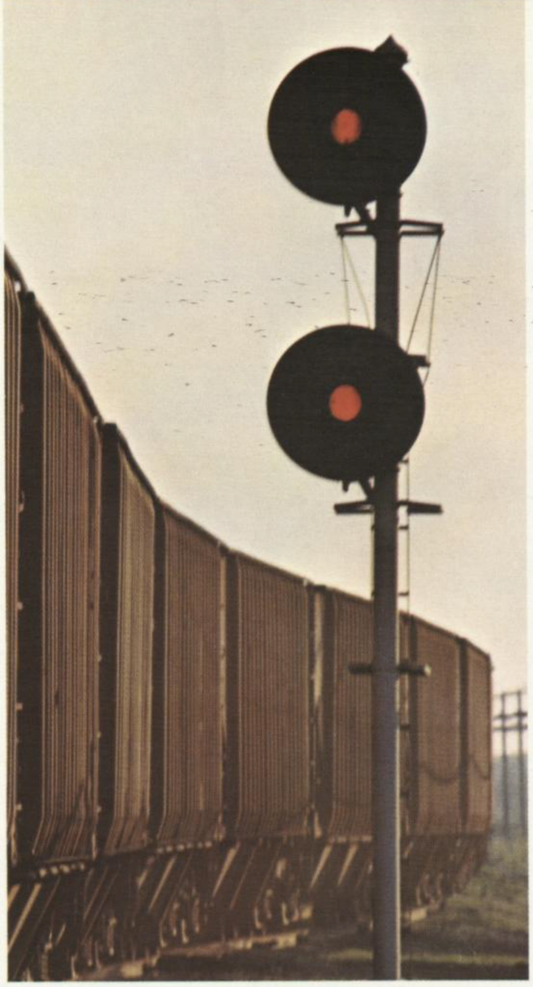
Wire Rope and Strand Products: Wire rope and strand—Bethanized, galvanized and aluminized • Stress-relieved strand • Wire rope slings and spliced products

Forgings, Castings and Special Products: Forgings—press, hammer, drop and circular • Hardened steel rolls • Ordnance • Steel castings • Ingot molds and stools • Ferro-manganese • Coal chemicals—tar, benzene, toluene, xylene and ammonium sulphate • Copper • Cobalt

Fabricated Steel Products: Bridges, buildings and other fabricated structures • Large diameter water pipe • Galvanized power transmission towers • Tanks and pressure vessels • Corrugated culvert pipe

Shipbuilding: Ships and ship repairs • Barges • Offshore oil drilling rigs • Special marine products

Raw Materials: Iron ore • Manganese ore • Lime • Stone • Slag



Bethlehem has long been a major supplier of steel to the nation's railroads.

Sales Offices

Albany
Atlanta
Baltimore
Bethlehem
Boston
Buffalo
Chicago
Cincinnati
Cleveland
Columbus
Dallas
Dayton
Des Moines
Detroit
Grand Rapids
Greensboro, N.C.
Honolulu
Houston
Indianapolis
Jacksonville
Kansas City, Mo.
Los Angeles
Louisville
Milwaukee
New Haven
New York
Philadelphia
Pittsburgh
Portland, Ore.
Richmond, Va.
St. Louis
St. Paul
Salt Lake City
San Francisco
Seattle
Spokane
Syracuse
Toledo
Tulsa
Washington, D.C.
York

Export Sales:
Bethlehem Steel Export Corporation
New York, N.Y.

Continuing research and development have helped to produce new steel products, such as these chrome coated, tin-free steel cans.

FACILITIES

Galvanized sheets for the West are produced at Pinole Point, Richmond, California.

Steel Plants: Sparrows Point, Md. • Lackawanna, N.Y. • Bethlehem, Pa. • Burns Harbor, Ind. • Johnstown, Pa. • Steelton, Pa. • Los Angeles, Calif. • Seattle, Wash. • South San Francisco, Calif. • Pinole Point, Calif. • Lebanon, Pa. • Williamsport, Pa.

Fabricating Works: Pottstown, Pa. • Leetsdale, Pa. • Pinole Point, Calif. • Chicago, Ill. • Bethlehem, Pa. • Torrance, Calif.

Shipbuilding and Ship Repair Yards: Baltimore, Md. • Beaumont, Tex. • East Boston, Mass. • Hoboken, N.J. • San Francisco, Calif. • Sparrows Point, Md. • Terminal Island (San Pedro), Calif.

Other Manufacturing Units: Albany, N.Y. • Baltimore, Md. • Boston, Mass. • Buffalo, N.Y. • Charlotte, N.C. • Clearing, Ill. • Cleveland, Ohio • Detroit, Mich. • Dunellen, N.J. • Elizabeth, N.J. • Fairfield, Md. • Hallandale, Fla. • Houston, Tex. • Jacksonville, Fla. • Miami, Fla. • Minneapolis, Minn. • Philadelphia, Pa. • Raleigh, N.C. • Richmond, Va. • Romulus, Mich. • Staten Island, N.Y.

Iron Ore Mines: Negaunee, Mich.* • Hibbing, Minn.* • Hoyt Lakes, Minn.* • Sullivan, Mo.* • Cornwall, Pa. • Morgantown, Pa. • Labrador City, Labrador, Canada* • Marmora, Ontario, Canada • Schefferville, Quebec, Canada* • Belo Horizonte, Brazil* • La Serena, Chile • Buchanan, Liberia* • San Felix, Venezuela

Manganese Ore Mines: Macapa, Amapa, Brazil* • Molango, Hidalgo, Mexico*

Coal Mines: Jenkins, Ky. • Ebensburg, Pa. • Ellsworth, Pa. • Barrackville, W. Va. • Itmann, W. Va.* • Kayford, W. Va.

Limestone Quarries: Drummond Island, Mich. • Presque Isle, Mich.* • Annville, Pa. • Hanover, Pa. • King of Prussia, Pa. • Milroy, Pa.

Rail Transportation: Five short line railroads in the vicinities of the Sparrows Point, Lackawanna, Bethlehem, Johnstown and Steelton Plants and one partially owned railroad serving certain coal mines near Johnstown, Pa.

Water Transportation: Six ore vessels and two product carrying vessels on the Great Lakes; eighteen ocean going ore and product carrying vessels; and three coal barges.

**Partial Interest*

692, Printed in U.S.A.

Directors

Crowdus Baker
Retired Vice Chairman of the Board,
Sears, Roebuck and Co.

Edward D. Bickford

Russell K. Branscom

Bernard D. Broeker

Stewart S. Cort

Jess H. Davis
President,
Stevens Institute of Technology

Lewis W. Foy

Harold H. Helm
Chairman of the Executive Committee,
Chemical Bank

Robert B. Hobbs
Chairman of the Executive Committee,
First National Bank of Maryland

John E. Jacobs

Edmund F. Martin

Monroe J. Rathbone
Retired Chairman of the Board,
Standard Oil Company (New Jersey)

Albert M. Reed

Ivor D. Sims

Principal Officers

Edmund F. Martin
Chairman

Stewart S. Cort
President

Edward D. Bickford
Vice President, Sales

Donald J. Blickwede
Vice President and
Director of Research

Russell K. Branscom
Vice President, Industrial
and Public Relations

John D. Briggs
Vice President, Planning

Bernard D. Broeker
Chairman of the Finance Committee
and General Counsel

Lewis W. Foy
Vice President, Purchasing

John C. Howard
Vice President, Traffic

Ben L. Bishop
Assistant Vice President, Sales

John F. Callahan
Assistant Vice President, Accounting

Albert W. Connar
General Purchasing Agent

Laurence Fenninger, Jr.
Assistant Vice President,
Industrial and Public Relations

Charles W. Ganzel
Assistant Vice President, Sales

Robert J. Jurgen
Assistant Vice President, Traffic

John J. O'Connell
Assistant Vice President,
Industrial and Public Relations

Ivor D. Sims
Executive Vice President

Richard M. Hurd
Vice President, Engineering

John E. Jacobs
Vice President, Operations

Edward P. Leach
Vice President, Mining

Albert M. Reed
Vice President, Accounting,
and Comptroller

Daniel D. Strohmeier
Vice President, Shipbuilding

Francis Van Nuys
Vice President, Law

James H. Walker
Vice President, Finance

Henry R. Pund
Assistant Vice President,
Shipbuilding

Sheldon J. Shale
Assistant Vice President, Mining

C. Thompson Stott
Assistant Vice President,
Operations

R. Stockton Taylor
Assistant Vice President, Sales

Walter F. Williams
Assistant Vice President,
Shipbuilding

Robert C. Sonneman
Secretary

Edward W. Morris
Treasurer

Annual Meeting

The Annual Meeting of Stockholders of Bethlehem Steel Corporation will be held at 11 a.m. on Tuesday, April 29, 1969, in the Nemours Auditorium, Nemours Building, Orange Street, Wilmington, Delaware.

Stock Transfer Offices

Bethlehem Steel Corporation
25 Broadway
New York, N. Y. 10004

Continental Illinois National Bank
and Trust Company of Chicago
231 South LaSalle Street
Chicago, Illinois 60690

Registrars of Stock

Morgan Guaranty Trust Company
of New York
New York, N. Y. 10015

The First National Bank of Chicago
Chicago, Illinois 60690

Counsel

Cravath, Swaine & Moore
New York, N. Y. 10005

Independent Accountants

Price Waterhouse & Co.
New York, N. Y. 10004

About 2 million tons of steel per year will be produced in the basic oxygen furnace shop at the Burns Harbor, Indiana, plant.